



LLOYD'S OF LONDON: A HISTORICAL PERSPECTIVE AND CONTEMPORARY ROLE

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Abstract. *This article is devoted to analyzing the modern role of Lloyd's of London – the oldest and the biggest insurance marketplace in the world – in addressing current challenges and opportunities within the global insurance landscape. It examines the institution's historical evolution, its unique business model, and its capacity to adapt to emerging risks such as climate change and sustainability issues.*

Keywords: *Lloyd's, syndicates, insurance, risk management, reinsurance.*

LLOYD'S OF LONDON: TARIXIY PERSPEKTIVA VA ZAMONAVIY O'RNI

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Annotatsiya. *Ushbu maqola dunyodagi eng qadimgi va eng katta sug'urta bozori bo'lgan Lloyd's of London kompaniyasining global sug'urta landshaftidagi mavjud muammolar va imkoniyatlarni hal qilishdagi zamonaviy rolini tahlil qilishga bag'ishlangan. Unda muassasaning tarixiy evolyutsiyasi, o'ziga xos biznes modeli hamda iqlim o'zgarishi va barqarorlik muammolari kabi yuzaga kelayotgan xavflarga moslashish imkoniyatlari ko'rib chiqiladi.*

Kalit so'zlar: *Lloyd's, sindikatlar, sug'urta, xavf, risk menejment, qayta sug'urta.*

ЛОНДОНСКИЙ ЛЛОЙДС: ИСТОРИЧЕСКАЯ ПЕРСПЕКТИВА И СОВРЕМЕННАЯ РОЛЬ

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Аннотация. *Данная статья посвящена анализу современной роли Лондонского Ллойдса - старейшего и крупнейшего страхового рынка мира - в решении текущих задач и использовании возможностей в рамках глобального страхового ландшафта. В ней рассматривается историческая эволюция организации, ее уникальная бизнес-модель и способность адаптироваться к возникающим рискам, таким как изменение климата и проблемы устойчивого развития.*

Ключевые слова: *Lloyd's, синдикаты, страхование, риск менеджмент, перестрахование.*

Introduction.

One of the biggest players in the world insurance market is Lloyd's of London. It is the United Kingdom's major economic institution that provides coverage for a diverse range of clients, from national governments and multinational corporations to small businesses and start-ups. It is licensed to write onshore insurance in 80 countries, reinsurance in 100 countries and offshore reinsurance in over 200 countries. Lloyd's licenses in the EU and in China are held by its wholly owned, locally authorized insurance company subsidiaries – in Belgium (Lloyd's Insurance Company S.A.) and China (Lloyd's Insurance Company (China) Limited). Its extensive portfolio includes aviation, casualty, cyber, crime, political risk, terrorism, financial institutions, marine insurance, and many other specialized lines of business.

It has more than 300 years of history and has played a pivotal role in shaping the global insurance industry. Exploring how this institution has evolved over time and adapted to modern challenges, including rising global focus on sustainability, ESG provides valuable insights into resilience and innovation in a legacy marketplace.

Literature review.

The scientific works of a number of specialists cover the history of development, peculiarities of functioning of Lloyd's of London. In particular, in the works of Kilminster and others (2024) "Organizing long duration interdependence in Lloyd's of London: Persistence in a part-whole paradox of organizing", Tollin and Deckman (2000) "Lloyd's of London and the Problem with Federal Diversity Jurisdiction", Ferguson (1983) "Self-regulation at Lloyd's: The Lloyd's Act 1982", there were analyzed how the relationship between Lloyd's and its members has progressively deepened, highlighting the increasing mutual reliance within the organization. Other authors, like Hindley (2000), deeply learned the actuarial role of Lloyd's and other issues in relation to reinsurance to close for general insurance syndicates at Lloyd's of London.

In addition, official websites of Lloyd's of London and Financial Times, including annual reports, sustainability reports, Lloyd's Futureset reports provide information on the development of the insurance market, details about the unique structure, types of insurance and reinsurance products developed and offered to customers and other activities of Lloyd's of London.

Analysis and discussion of results.

Lloyd's of London (or simply referred to as Lloyd's) is the oldest and the most famous insurance organization in the world. Unlike traditional insurance companies, Lloyd's operates as a marketplace where various specialized underwriters, brokers, and syndicates come together to share risks and provide coverage for complex or unique insurance needs.

It has an incredibly rich and fascinating history and reflects the evolution of global trade, the growth of the insurance industry, and its adaptation to changing times.

It was founded in 1688, when Edward Lloyd's coffee house in Tower Street was referred to for the first time in an article in the London Gazette, which offered a reward for five stolen watches and encouraged anyone with information to contact Lloyd. Located close to the River Thames, being the primary hub for trade and commerce where ships regularly docked, Edward Lloyd's coffee house naturally became a meeting place for merchants to arrange mutual insurance for their ventures. Thanks to the entrepreneurial spirit of the owner, who offered not only coffee but also ink, paper, and quills at the guests' service, the coffee house quickly gained popularity and would soon become a genuine business club for captains, maritime merchants, and insurers.

At that time the rise of the British Empire and its extensive naval dominance meant a growing need to protect ships and cargo traveling across dangerous and unpredictable seas. Because of the absence of structured or specialized organizations in the market to underwrite

marine risks, Lloyd's filled this gap by providing an informal yet reliable marketplace for underwriting shipping-related risks. Over time, Lloyd's developed its reputation as the go-to market for marine insurance due to its efficiency and expertise.

Shortly after Christmas in 1691, the small group of marine insurance underwriters moved to No. 16 Lombard Street, a location now marked with a blue plaque in recognition of its historical significance. This arrangement continued well beyond Edward Lloyd's death in 1713, lasting until 1774, when the underwriters formed a formal committee. The first committee faced challenges often associated with ad hoc groups—it failed to achieve its primary objective. Despite raising an impressive sum for the time, £7,900, contributed by 79 individuals and deposited in the Bank of England to secure a suitable place of business, no tangible results were achieved beyond plans and proposals. Finally, under the leadership of Mr. John Julius Angerstein (he was born in Saint-Petersburg), they secured two rooms at the Royal Exchange in Cornhill, officially establishing “The Society of Lloyd's”. That had become a big move for Lloyd's in raising its reputation to a high level despite problems of growth, change, and world crises and Mr. Angerstein had become known as the Father of Lloyd's.

1871 is marked as an important year for Lloyd's of London, because the Parliament passed the Lloyd's Act 1871 (34 & 35 Vict. c. xxi), officially incorporating Lloyd's as “The Society of Lloyd's”, thus granting it legal standing and the ability to operate as a corporate body. It set out rules for the internal governance of Lloyd's, including the establishment of a committee of management to oversee its activities, a possibility for underwriters to collaborate together to insure larger risks, duties of members of “The Society of Lloyd's”, including unlimited liability of any member in respect of his individual undertakings, debts or liabilities, etc. Further powers were conferred on the Society and on the members of the Society in general meetings by Lloyd's Act 1911, Lloyd's Act 1925 and Lloyd's Act 1951. If by the act of 1871 the syndicates were restricted to marine insurance, by an act of 1911 syndicates were empowered to carry on insurance of every description.

In 1982, a new Act – the Lloyd's Act 1982 – established a more modern framework for the organization, which remain in effect today. There was created the “Council of Lloyd's” – the governing body overseeing Lloyd's operations, setting regulations, including on managing agents, brokers and syndicates. Although the Council was enthroned as Lloyd's ruling body, the Act made provision for an extensive delegation of powers to Lloyd's Committee. The Committee was to deal largely with day-to-day affairs, whilst the Council was to undertake long-term planning and policy-making.

It should be noted that members of the Society (also referred to as Names), being either an individual or a corporate entity, provides the financial backing for the insurance policies underwritten in the Lloyd's market. Lloyd's itself does not issue insurance policies or provide direct insurance coverage; instead, it operates as a marketplace or a platform for its members as well as provides them physical facilitates and other related services. It is the members, operating through syndicates (group of underwriters), who insure risks and issue insurance policies. So, technically, each member is a separate “insurance company”, insuring risks separately or collectively with other members by forming syndicates. A syndicate's underwriting and other activities are managed on behalf of its members by a managing agent – a professional, which handles all aspects of the syndicate's operations, including employing underwriters to assess the risks and negotiate terms for insurance, issuing insurance policies, managing claims, overseeing day-to-day activities and ensuring that syndicate complies with Lloyd's regulations and market standards.

All premiums received by syndicates are held in trust by the managing agents as the first resource for paying customers' claims. In rare cases when resources of members wouldn't be enough to meet their liabilities under insurance policies, Lloyd's Central Fund would be used to protect policyholders. This fund is financed by contributions from Lloyd's members and administered by the Council of Lloyd's. Each member must provide sufficient capital to support

their underwriting at Lloyd's. Managing agents assess the Solvency Capital Requirement (SCR) for each syndicate that they manage, which sets out how much capital the syndicate requires to cover its underlying business risks at a 99.5% confidence level.

Between the mid-1950s and the early 1970s total underwriting membership grew from about 4,000 up to 20,000. This rapid growth reflected Lloyd's official policy of augmenting capacity: international competitiveness could be maintained only by establishing a capital base big enough for the insurance of huge modern risks.

Traditionally, members had unlimited personal liability for the business transacted for them by their underwriting agents. However, this system underwent significant change following the financial crisis of the late 1980s and early 1990s, during which thousands of members faced bankruptcy due to unprecedented losses, primarily driven by pollution and asbestos-related claims. In 1993, Lloyd's introduced reforms to limit personal losses to 80% of a member's total permitted annual premium income, calculated over a four-year period. Losses exceeding this cap would be covered by a central pool, funded through an annual levy on all members. Additionally, that same year, Lloyd's made a historic decision to permit corporate and institutional investors to participate in its underwriting activities, marking a significant shift from its traditional reliance on individual members. These changes led to a dramatic reduction in the number of members, dropping from over 30,000 to fewer than 10,000, as the market transitioned to a more diversified and resilient investor base.

Despite big losses and bankruptcies of some members after severe crises, Lloyd's never defaulted in its history. All claims to policyholders were paid in due course. Lloyd's participated in developing new insurance products, like commercial aviation insurance in 1911, insuring body parts of celebrities, starting from the actor Ben Turpin in 1930s, satellite insurance policy in 1965, commercial space flights insurance in 2004, etc. It participated in covering a lot of losses, including San Francisco earthquake in 1906, the sinking of the Titanic ship in 1912, Piper Alpha (a North Sea oil rig) in 1988, World Trade Center attack in 2001, Hurricane Katrina in 2005, destructive wildfires in California in 2017, etc.

As of end 2023, the Lloyd's market consisted of 51 managing agents, 78 syndicates, more than 380 registered brokers and more than 400 service companies. It had also 2949 coverholders, which are entities, authorized by a Lloyd's syndicate to underwrite insurance policies on its behalf and hence act as Lloyd's extended arm in both local and foreign markets.

The Council of Lloyd's prepares on annual basis so-called pro forma financial statement (PFFS), which is consolidated financial statement prepared by aggregating audited financial information reported in syndicated returns and annual accounts, members' funds at Lloyd's and the audited financial statements of the Society of Lloyd's. So, PFFS gives consolidated view on Lloyd's financial position and performance, incorporating data from all relevant members and applying necessary adjustments for consistency and transparency.

Financial results of Lloyd's for the last 5 years were quite volatile (see Table 1). It is obvious that 2020 year was marked by losses from COVID-19 (3,433 mln. pounds sterling) as well as a number of catastrophic events, including Hurricane Ida, European floods and US Winter Storm Uri. 2023 was the best year for the last 5 years as Lloyd's substantially increased gross written premium (by 12%) and net income. Combined ratio was 84%, which was Lloyd's best result since 2007. US Winter Storm Uri.

One of the emerging risks in the world today is climate change. It poses significant risks, with the potential to create impacts over prolonged and uncertain time horizons, and across many areas of risk, including potentially systemic impacts. Insurance is among the industries most affected by climate change due to what it insures and invests in.

Realizing how it was important for the insurance market, in 2007, Lloyd's became one of the founding members of the ClimateWise Initiative, a collaborative endeavor by insurers to drive action on climate change. During all these years Lloyd's was taking certain measures to develop specific environmental objectives.

In 2015 Lloyd's launched the Disaster Risk Facility (DRF), which closes protection gaps for the countries and communities around the world most impacted by disasters. This consortium, made up of five Lloyd's syndicates engages with governments, municipalities, and multilateral organizations around the world and is peril agnostic in its support for vulnerable communities, implementing pre-arranged risk financing to reduce the cost, impact and recovery time following a disaster by ensuring financial support reaches those who need it most. In 2019 Lloyd's implemented ISO 14001 (International Environmental Management Standard) to develop an integrated management system with migration to ISO 45001 (International Occupational Health and Safety Management Standard).

Table 1.**Financial results of Lloyd's for the period 2019-2023 (in mln. pounds sterling)**

	2019	2020	2021	2022	2023
Gross written premium	35,905	35,466	39,216	46,705	52,149
Gross claims paid	22,991	21,422	19,931	21,405	22,378
Underwriting result	-538	-2,676	1,741	2,641	5,910
Investment income	3,537	2,268	948	-3,128	5,310
Net income	2,528	-866	2,316	-429	10,382
Capital, reserves and subordinated loan notes	30,638	33,941	36,553	40,205	45,269
Loss ratio	63,4%	60,4%	50,8%	45,8%	42,9%
Expense ratio	38,1%	49,9%	42,7%	46,1%	41,1%
Combined ratio	102,1%	110,3%	93,5%	91,9%	84,0%
Return on capital	8,8%	-28%	6,6%	-20%	25,3%

Source: prepared by the author based on figures from Annual reports of Lloyd's for the period 2019-2023.

In 2020 Lloyd's embedded Environmental, Social, and Governance (ESG) principles into its operations, recognizing the role the insurance industry plays in mitigating the impacts of climate change and driving the transition to a low-carbon economy. Therefore, Lloyd's asked its members to stop providing new insurance cover for thermal coal, oil sands, or new Arctic energy exploration from January 01, 2022, with a target date of January 01, 2030 to phase out the renewal of existing cover. Although, this was not done by all members in due course. Regarding its investments, Lloyd's announced that, from January 01, 2022, Lloyd's market participants and the Lloyd's Corporation will no longer invest in and, by end 2025, will divest from companies that generate more than 30% of their revenues from coal power generation or production, oil sands, or Arctic exploration activities.

Besides, in 2021, Lloyd's committed to be net zero by 2050 and it was invited to lead the Insurance Task Force, which brings together global insurance leaders and firms to drive and accelerate the transition of the industry towards a resilient, net zero economy. Nowadays, Lloyd's monitor a number of climate-related financial risks through the risk framework, including risk appetite metrics and key risk indicators.

It should be noted that Lloyd's also aligned its strategic priorities with UN Sustainable Development Goals (SDG). As of end of 2023, 100% of electricity purchased for our London and Chatham office is renewable (fully aligned with 7th SDG – "Affordable and Clean Energy"), demonstrated 33% reduction in total global emissions per FTE since its baseline year of 2019 as well as launched the Lloyd's Private Impact Fund on its investment platform, with targeted assets centred around themes of climate mitigation and adaptation (fully aligned with 13th SDG – "Climate Action"). In November 2023 Lloyd's launched a consultation on roadmap for insuring the transition, which covers Lloyd's proposed approach for the next three years across all areas of sustainability for the market, including underwriting, investments, exposure management and capital and reserving.

Lloyd's aims to be the leading specialist (re)insurance marketplace, facilitating a just transition to a net-zero global economy. Achieving this goal requires a diverse range of strategies to address both the challenges and opportunities arising from the shift to a low-carbon economy. As a marketplace, Lloyd's must collectively manage the risks associated with this transition while also capitalizing on the growth potential of emerging economic activities. Additionally, it is essential to ensure that the transition is fair and inclusive, providing support to communities and businesses worldwide.

Conclusion and suggestions.

Lloyd's has evolved significantly over the past 300+ years, shaping its current market structure and risk management strategies. Today, Lloyd's operates as a marketplace, with 51 managing agents, 78 syndicates, and over 380 brokers as of 2023. Spreading risk across multiple syndicates specializing in different lines of insurance (e.g., cyber, terrorism, catastrophe) as well as holding sufficient capital to cover extreme risks (99,5% confidence level) allows policyholders have a piece of mind and insurance indemnification very quickly in case of occurrence of loss. Existence of the Central Fund as a last-resort safety net, ensures policyholder that claims are always met.

Lloyd's does not operate as a traditional insurance company but as a marketplace where multiple independent underwriters and syndicates assume and spread risks collectively. Originally focused on marine insurance, Lloyd's expanded into aviation, casualty, reinsurance, and specialized risks by the early 20th century. The 1982 Lloyd's Act formalized the Council of Lloyd's, centralizing oversight and introducing modern governance standards to improve financial stability and transparency.

Lloyd's has made significant commitments to integrating climate resilience and ESG principles into its business model. It is actively transitioning toward sustainability, with ESG-driven underwriting, fossil fuel divestment, and climate risk solutions playing a central role in its long-term strategy. Lloyd's also aims to be the leading specialist (re)insurance marketplace, facilitating a just transition to a net-zero global economy, thus providing support to both communities and businesses.

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